By John A. Gorman

Capital Formation, Saving, and Credit

ECONOMIC activities which are usually financed by borrowing were higher in 1962 than in 1961, and the advance has continued into the opening quarter of 1963. Private investment outlays in 1962, at $76½ billion, were $7 billion above 1961, while consumer durable goods purchases rose $4 billion to a total of $47½ billion. State and local government construction spending amounted to $14 billion, $¾ billion above 1961. While the Federal Government's deficit on income and product account was unchanged at $3½ billion,[1] increased lending activities and the desire to hold up short-term interest rates were reflected in increased Government borrowing.

Gross corporate saving—retained profits plus capital consumption allowances—was $6 billion above the 1961 rate, while personal saving and noncorporate capital consumption allowances each rose about $1 billion. Nevertheless record volumes of debt and liquid assets were created in the savings-investment process.

Net public and private debt rose $73 billion in 1962 to a yearend total of over $1 trillion. Corporations, individuals, and governments each owed about one-third of this total. In 1961, total debt had risen only $55 billion. The advance in the pace of borrowing was sharpest in consumer credit and multifamily residential and commercial mortgage debt, which rose $5½ billion and $8 billion, respectively, last year as compared with $1½ billion and $6 billion in 1961. Mortgage borrowing on 1- to 4-family residential properties also moved up noticeably—$15 billion was added to net indebtedness on this account, one-third more than in the previous year. Other categories of debt expanded at somewhat more than the 1961 pace: Federal net debt was up $8 billion, State and local governments' debt rose $6½ billion, while corporations added $9½ billion to their long-term debts other than mortgages and $12½ billion to their short-term obligations. Fragmentary data indicate that borrowing in most categories has continued to expand so far this year.

The increased borrowing was handled with little strain on the money and capital markets during the past 15 months as monetary policy was oriented toward providing sufficient bank reserves to foster economic expansion.

Under these circumstances, a peacetime record volume of $29½ billion was added to the public's holdings of liquid claims on banks and other financial institutions in 1962, $9 billion more than was added in 1961. The growth in liquidity apparently has accelerated in early 1963. The most spectacular manifestation of this development last year was the $15-billion rise in commercial bank time and savings deposits. Other forms of liquid asset holdings also increased at better than the 1961 pace. Long-term interest rates have tended to

Table 1.—Sources and Uses of Corporate Funds, Annual, 1959-62; Half Years, 1959-62 [1] [2]

[Billions of dollars]

	1959	1960	1961	1962	1st half				2d half			
					1959	1960	1961	1962	1959	1960	1961	1962
Sources, total	57.1	44.1	51.8	57.6	28.0	22.0	19.9	26.6	29.2	22.1	31.9	31.1
Internal sources, total	31.1	30.4	32.0	35.4	16.1	15.7	15.2	17.7	15.1	14.7	16.0	17.7
Retained profits[2] [4]	9.5	7.3	7.2	9.2	6.4	4.3	3.0	4.7	4.1	3.0	4.2	4.5
Depreciation [3]	21.6	23.1	24.8	26.2	10.0	11.4	12.1	12.9	11.6	11.7	12.8	13.2
External long-term sources, total	9.6	9.8	11.1	9.8	4.5	4.6	5.2	4.2	5.1	5.2	4.9	4.5
Stocks	3.7	3.0	4.6	2.1	2.1	1.6	2.8	1.4	1.5	1.4	1.7	.6
Bonds	4.1	5.0	5.1	5.0	1.8	2.0	2.7	2.7	2.3	3.1	2.4	2.3
Other debt	1.9	1.7	1.4	2.5	.6	1.0	.0	1.0	1.1	.7	.8	1.6
Short-term sources, total	16.5	3.9	8.7	12.0	7.4	1.8	−1.4	3.7	9.1	2.1	10.1	8.0
Bank loans	5.4	1.3	.4	3.0	2.5	1.3	−.4	.6	2.8	(5)	.7	2.4
Trade payables	5.3	2.0	6.0	6.6	1.7	1.2	.1	1.6	3.6	1.4	5.9	4.1
Federal income tax liabilities	2.1	−1.5	.6	1.0	.4	−2.4	−2.1	−.5	1.7	.9	2.7	1.4
Other	3.7	1.6	1.7	2.1	2.8	1.7	1.0	2.1	.9	−.1	.7	1.0
Uses, total	52.1	41.1	48.3	52.2	26.0	20.1	18.7	24.7	26.1	20.9	28.6	27.5
Increase in physical assets, total	34.2	33.4	31.3	34.5	17.7	16.6	14.1	18.4	16.6	14.9	17.3	16.1
Plant and equipment	27.7	30.8	29.5	32.0	12.8	14.0	13.9	15.1	14.9	16.1	15.7	16.9
Inventories (book value)	6.5	2.6	1.8	2.5	4.9	3.0	.1	3.3	1.6	−1.2	1.6	−.8
Increases in financial assets, total	17.9	7.7	17.0	17.7	8.3	1.0	4.6	6.3	9.6	6.1	12.3	11.4
Receivables	10.9	7.6	9.0	11.2	5.5	3.7	2.7	5.4	5.3	4.0	6.9	5.8
Consumer	2.4	1.6	.1	2.5	−.1	−.1	−1.9	(5)	2.5	1.7	2.0	2.6
Other	8.4	6.0	9.5	8.7	5.6	3.8	4.6	5.5	2.8	2.2	4.9	3.3
Cash and U.S. Government securities	2.9	−3.1	2.5	1.0	.1	−4.3	−1.0	−3.0	2.9	1.2	3.5	4.0
Cash (including deposits)	−1.1	−.2	2.9	.7	−1.9	−2.6	−.8	−2.9	.9	2.8	3.9	3.6
U.S. Government securities	4.0	−2.9	−.4	.3	2.0	−1.7	−.2	−.1	2.0	−1.2	−.3	.4
Other assets	4.1	3.1	4.9	5.4	2.7	2.3	3.0	3.9	1.4	.9	1.9	1.6
Discrepancy (uses less sources)	−5.0	−3.0	−3.4	−5.4	−2.0	−1.9	−1.2	−1.9	−3.1	−1.1	−3.3	−3.6

1. Data for 1946-55 may be found in Table V-10 of U.S. Income and Output; 1956-58 estimates are in table 24 of July 1962 Survey.
2. Excludes banks and insurance companies.
3. Includes depletion.
4. Does not reflect revisions in depreciation accounting introduced in 1962.
5. Less than $50 million.

Sources: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission and other financial data.

[1] Making rough allowances for the investment tax credit and the change in depreciation rules.

drift downward throughout the period under review. Short-term rates, however, moved up under the impact of specific policies adopted to safeguard our gold stock. In recent weeks, as economic activity has accelerated there has been apparent a tendency for borrowing costs to move moderately upward.

Financial Institutions

Monetary policy in 1962 and so far in 1963 permitted a peacetime record advance in the total of bank time and demand deposits. The flow of savings into nonbank financial intermediaries also continued to advance. These substantial institutional fund supplies spurred the institutions to seek out available investments and most long-term interest rates have tended to ease.

Monetary policy easy

The Federal Reserve System kept bank reserve positions relatively easy throughout 1962 and into the opening quarter of 1963. The ease was signaled by the maintenance of an average net free reserve position upward of $400 million till the closing months of 1962 and in the neighborhood of $300 million since, despite a record advance in the volume of bank credit. As indicated in the chart on this page, this was a distinct departure from the experience of previous cycles. During the earlier expansions, the net reserve position turned negative as the monetary authorities exerted pressure on bank reserve positions.

As in other recent years, open-market operations were the principal instrument of monetary policy. The Federal Reserve added $1¼ billion to its holdings of Treasury securities—$½ billion more than needed to offset the gold outflow. Over the first quarter of 1963, Federal Reserve holdings remained constant, at a time when the normal seasonal influences are reflected in a reduction in System holdings.

In addition to providing bank reserves to sustain economic advance, the monetary authorities attempted to minimize gold outflows by exerting upward pressure on short-term interest rates in the United States. In pursuance of this objective, the Federal Reserve continued to deal in intermediate and longer term securities instead of confining itself to "bills only." The Federal Reserve sold or redeemed more short-term issues than it bought, so that the entire increase in System holdings was in securities with a maturity greater than one year. This technique simultaneously increased the supply of short-term instruments on the money market, while adding to the demand for long-term securities.

With the increase in seasonal demand for funds last fall, the monetary authorities reduced reserve requirements against time deposits from 5 percent to 4 percent, thus adding the equivalent of $700 million to bank reserves. There was no change in the discount rate.

Bank credit expands at record pace

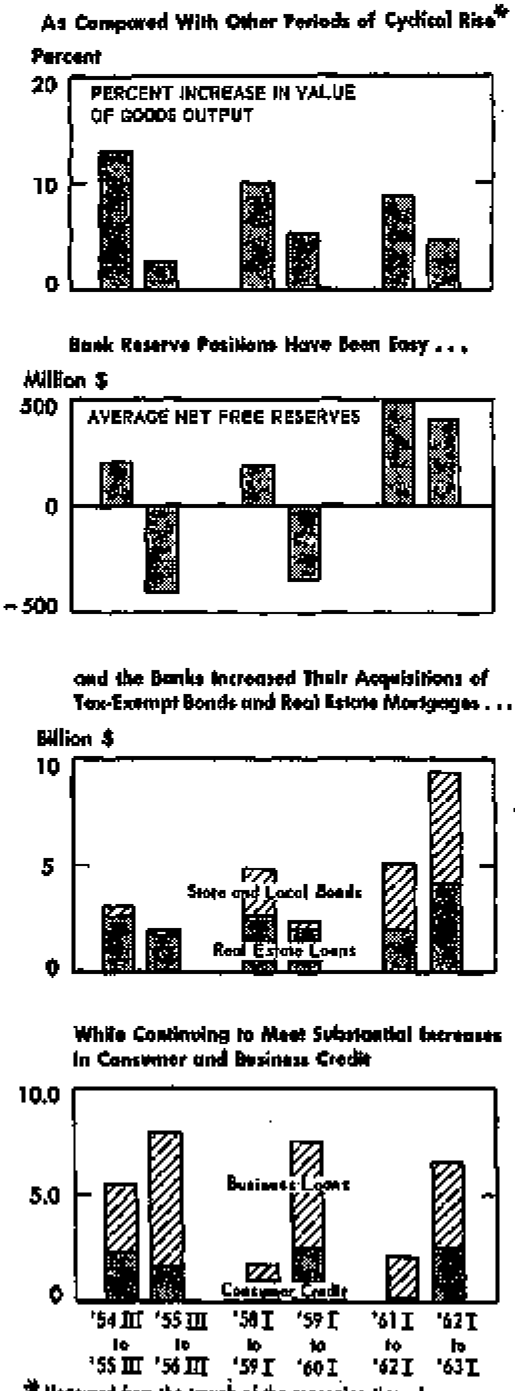
The loan and investment portfolios of the commercial banking system rose $18 billion during 1962. This pace has accelerated in the first quarter of 1963, to an annual rate approaching $29 billion.

The role of monetary policy in facilitating this expansion has been noted above. A shift in holdings from demand to time deposits following the introduction of higher time deposit interest rates last year also contributed to bank lending ability as reserve requirements against time deposits are much smaller than those against demand deposits. Reflecting this shift, time deposits were up $15 billion by yearend, demand deposits only $2 billion. During early 1963, these trends continued, with time deposits up $17 billion at annual rates and demand balances $3 billion higher.

All categories of bank credit rose last year, except investments in U.S. Government obligations: holdings of such securities were down $¾ billion at the end of 1962 from the total held at the opening of the year. As shown in the chart on this page, the banks were especially active in the markets for tax-exempt securities and mortgages, where holdings were increased by $5 billion and $4 billion, respectively. Bank loans to consumers increased $2 billion, and after some hesitation early in the year, business loan demand picked up in the last half, and the banks added $4 billion to their holdings. Other loan categories showing expansion—finance companies, security loans, and farm loans each rose by about $1 billion.

During the first quarter of 1963, the banks continued to be very active in the mortgage, tax-exempt bond, and consumer lending areas while adding substantially to their holdings of U.S. Government securities. Business loan

BANK CREDIT DEVELOPMENTS



* Measured from the trough of the recession through the eighth quarter.

Data: FRB & OBE

U.S. Department of Commerce, Office of Business Economics 63-5-6 demand has tapered from the pace reached in the closing quarter of 1962.

The expanded participation of commercial banks in the purchase of tax-exempt securities and mortgages had marked impacts on these markets. Investments in State and local securities approximated the net increase in the outstanding total of such securities; in most years, banks had taken a very small portion of the volume of new issues. In the real estate field, the additional bank lending amounted to about two-fifths of the increase in the rate of net mortgage borrowing: banks accounted for only one-tenth of net lending in 1961.

As indicated in the chart on page 11, this expansion into the tax-exempt and real estate fields was in marked contrast to the experience of earlier business expansions. In these periods, bank reserves were under pressure and as consumer and business loan demand rose, banks had cut back their purchases of tax-exempt securities and their lending on mortgages.

Other savings institutions step up activity

Other savings institutions added $21 billion to their investment and loan portfolios in 1962: this was nearly $3 billion more than they had invested in 1961. The rise in their lending has continued into the first quarter.

As in most recent years, the rapid growth of the savings and loan industry sparked the advance in the nonbank institutional total: these institutions added $11½ billion to their assets last year, $1 billion more than in 1961. The increase was financed largely by a continued growth ($9½ billion) in individuals' share capital, the balance by increases of about $800 million in borrowings from the Federal Home Loan Banks and by the reinvestment of earnings. With saving and loan investments practically restricted to the real estate area, $10 billion was added to the associations' mortgage loan portfolios and liquid balances were increased by $900 million.

As interest rates on bank time deposits were raised early in 1962, there was a moderate slowing in the pace at which saving and loan deposits advanced. Many savings and loan associations thereupon raised their dividend rates to remain competitive. With the restoration of a more competitive rate relationship, the expansion in saving and loan share capital moved up in the second half of 1962.

Mutual savings banks reported substantial advances in the pace of operations: as deposits rose $3½ billion, loans moved up by a similar amount. Practically all of the advance in mutual savings bank assets went into the real estate mortgage market.

The net inflow to life insurance companies—which for some years had been stationary at around $5½ billion, rose in 1961, and last year continued to advance. In 1962 the companies added $6½ billion to their assets—$700 million more than in 1961. The increase was invested in mortgages and purchases of foreign securities. There was little net change in holdings of Federal securities, which had declined steadily in the preceding decade.

Financial markets

The financial markets were generally easy last year, with long-term interest rates declining moderately. In the short-term area, however, there was a slight upward drift in yields. So far in 1963, there has been some tendency for market interest rates to move upward.

All categories of long-term debt instruments were carrying lower yields at the end of 1962 than at the beginning, but during the first quarter, yields on U.S. Government securities moved up, while corporate bond yields moved down and State and local yields showed little change. There were also marked differences within the past year: State and local yields moved down rapidly to the fourth quarter, and then moved up. The course of long-term U.S. Government securities was similar, except that the drop was not as great proportionally as on the tax exempts. Corporate yields and yields on FHA mortgages moved down consistently throughout last year and into the first quarter of the current year. In recent weeks there has been a noticeable firming of the bond market as prospective financing needs of the Federal Government and new offerings by corporations and State and local securities have been announced.

The upward course of short-term yields at a time when long-term rates were declining stemmed primarily from the policies of the Treasury and the Federal Reserve, in expanding the volume of these issues in order to depress their prices. This policy was undertaken to minimize gold outflows and stimulated a record increase in foreign holdings of short-term U.S. Government securities. Yields have

Table 2.—Sources and Uses of Corporate Funds by Industry, Years Ended December 31, 1959–62 [1]

[Billions of dollars]

	Manufacturing and mining				Railroads				Transportation other than rail				Public utilities and communication			
	1959	1960	1961	1962	1959	1960	1961	1962	1959	1960	1961	1962	1959	1960	1961	1962
Sources, total	25.4	20.1	24.6	26.2	0.7	0.6	0.6	0.5	2.5	1.5	2.0	1.8	8.7	8.0	8.8	8.9
Retained profits [2,3]	7.5	6.1	5.6	7.8	−.1	−.3	−.2	−.1	(4)	−.1	(4)	(4)	.5	.5	.5	.6
Depreciation [2]	10.0	11.3	12.6	12.7	.9	.9	.8	.8	1.3	1.4	1.6	1.6	3.3	3.6	3.8	4.1
External long-term sources [5]	1.4	1.0	2.2	2.0	−.2	−.1	−.2	−.2	.5	.2	.3	.1	3.6	3.5	3.9	3.4
Short-term sources [6]	6.5	1.7	4.2	3.7	.1	(4)	.1	(4)	.7	.1	.1	.1	1.1	.4	.6	.7
Uses, total	22.5	16.6	22.2	22.4	1.0	.8	.8	.8	2.3	1.6	2.1	1.8	9.0	9.0	9.7	10.2
Plant and equipment	12.9	16.3	14.5	15.6	1.0	1.0	.7	.8	1.8	1.7	1.7	1.8	8.3	8.8	8.7	9.1
Inventories (book value)	4.4	.9	1.3	2.0	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	.1	−.1	(4)	(4)
Receivables and misc. assets	3.0	2.0	5.6	3.8	(4)	(4)	(4)	(4)	.4	.1	.2	.1	.5	.5	.5	.6
Cash and U.S. Government securities	1.3	−2.2	.6	1.0	(4)	−.2	.1	−.1	.1	(4)	.2	−.1	.1	−.2	.6	.4
Discrepancy (uses less sources)	−2.9	−3.4	−2.3	−3.8	.3	.2	.2	.1	−.2	.1	.1	(4)	.3	1.0	.9	1.3

1. Data for the year ended June 30, 1958 may be found on p. 22 of the November 1961 *Survey*; statistics for years ended June 30, 1959–62 are on p. 4 of the November 1962 *Survey*.
2. Includes depletion.
3. Does not reflect revisions in depreciation accounting introduced in 1962.
4. Less than $50 million.
5. Includes stocks, bonded debt, long-term bank loans, mortgages and other long-term debt.
6. Includes short-term bank loans, trade payables, Federal income tax liabilities, and miscellaneous liabilities.

Source: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

Table 3.—Personal Investment and Related Financing, 1958–62 [1]

[Billions of dollars]

	1958	1959	1960	1961	1962
Investment	31.2	36.9	34.6	35.4	38.5
New nonfarm housing	15.4	19.2	18.4	16.8	17.7
Noncorporate inventories and fixed investment	15.8	17.7	18.4	18.6	20.8
Borrowing	25.2	30.3	28.3	31.6	36.5
Residential mortgage debt, gross of amortization	17.4	21.9	20.1	23.1	27.1
Business and farm debt	7.7	8.4	8.2	8.5	9.4

1. Estimates for the 1946–57 period may be found on p. 16 of the April 1961 SURVEY.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, and U.S. Department of Commerce, Office of Business Economics.

continued to move up moderately in the first quarter of the current year.

Common stock prices reached their peak in December 1961, and then tapered off gradually through April. In May, they fell sharply and then continued to decline through June. Prices fluctuated at relatively low levels through the balance of the summer and fall, but started rising sharply in November and have continued to rise since. As of early May 1963 stock prices had not quite returned to the peaks attained in December of 1961. With the drastic fall in prices, earnings-price ratios rose sharply, while the combination of improved profits and higher dividends has kept this ratio relatively high despite the recent rise in prices.

Corporate Finance

Corporate investment and working capital fund uses and internal sources have both expanded over the past year. Corporations used about the same volume of external long-term financing last year as in 1961, and there was little change in the total of liquid assets held. Similarly, with fixed investment showing little change, the $1½ billion rise in internal funds during the first quarter of 1963 was sufficient to finance the rise of similar amount in inventories and other working capital.

Corporate investment rises

Corporate plant and equipment outlays continued to advance slowly from the lows reached during the 1961 recession: by the third quarter of last year they had finally surpassed the peak reached in the third quarter of 1957. The advance was most marked in the "commercial and other" category, which rose about 12 percent during 1962. Also showing a substantial advance was the manufacturing group, which rose about 7 percent over the comparison period. Most other industries showed little advance.

In addition to the rises in the plant and equipment category, the construction and purchase of apartment houses by real estate corporations—included in "other assets" in the table—also showed a marked rise. Such construction is now running at the highest pace in history, having exceeded the previous record set in 1927 ever since early 1961.

The failure of plant and equipment outlays to expand more quickly was the subject of much discussion during the year. The Administration introduced a series of revisions in the rules for computing depreciation allowances on the tax schedules which permit a faster recovery of sums invested in new plant and equipment spending. The Administration also proposed, and the Congress enacted, an investment credit against taxes equal, in most cases, to 7 percent of any equipment investment undertaken during the tax year. These proposals were expected to stimulate investment both by adding to the cash flow from which much investment is financed, and by making feasible investments carrying expected before-tax rates of return too low to yield a satisfactory after-tax return under the previous rules.

Working capital requirements continue at high pace

Corporations added about $13½ billion to their total gross working capital last year—a total $2 billion above the previous year. Inventories were increased by almost $2½ billion, and accounts receivable rose $11 billion. Quickening economic activity early this year has been accompanied by increases in inventory buying and other working capital items.

These working capital requirements were financed both from retained earnings and depreciation allowances and from an increased rate of borrowing from commercial banks: in the last half of 1962, bank borrowing moved up sharply after holding steady during the early part of the year. Also contributing to financing short-term uses was the continued growth in accounts payable, which, of course, represent sources to some corporations and uses to others. With the increase in automobile sales, finance companies added $2 billion to their portfolios of consumer loans, which they financed by roughly equal increases in their bank loans and in their outstanding paper.

Internal funds move up

Nonfinancial corporations' internal funds—undistributed profits and depreciation charges—rose about $5½ billion during 1962. About $3½ billion of this advance came from the expansion in business, while perhaps another $2 billion came from the tax relief provided by the revisions in depreciation rules and the investment credit. It should be noted that the precise volume of tax relief afforded is still unknown. This

Table 4.—Personal Consumption Expenditures and Related Financial Flows, 1958–62 [1]

[Billions of dollars]

	1958	1959	1960	1961	1962
Personal consumption expenditures: Total	293.2	313.5	328.5	338.1	356.7
Durables only	37.3	43.6	44.8	43.7	47.5
Consumer borrowing [2]	40.3	48.7	50.1	48.9	55.7
Secured by durables [2]	26.6	31.6	32.1	30.6	35.6

1. Estimates for the 1946–57 period may be found on p. 16 of the April 1961 *Survey*.
2. Gross of payment on installment debt.

Sources: Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

Office is conducting a survey of the extent to which corporations utilized these privileges: results of this study should be available in the near future.

First quarter profits results are not yet known, but preliminary indications are that the volume of profits plus capital consumption allowances has not changed significantly.

The recent movements of profits, and therefore of internal funds, have differed from those observed during earlier periods of economic advance. Profits normally rebound sharply from the recession lows and reach a peak 4 to 6 months after the upturn. With continued economic expansion, profits have tended to fall or level out. In the current expansion, the rebound from the recession low was not so sharp as in earlier ones, but the growth in profits has continued. To a large degree, this continued advance—apart from bookkeeping changes—reflects increasingly successful attempts to keep costs under control.

External financing holds steady

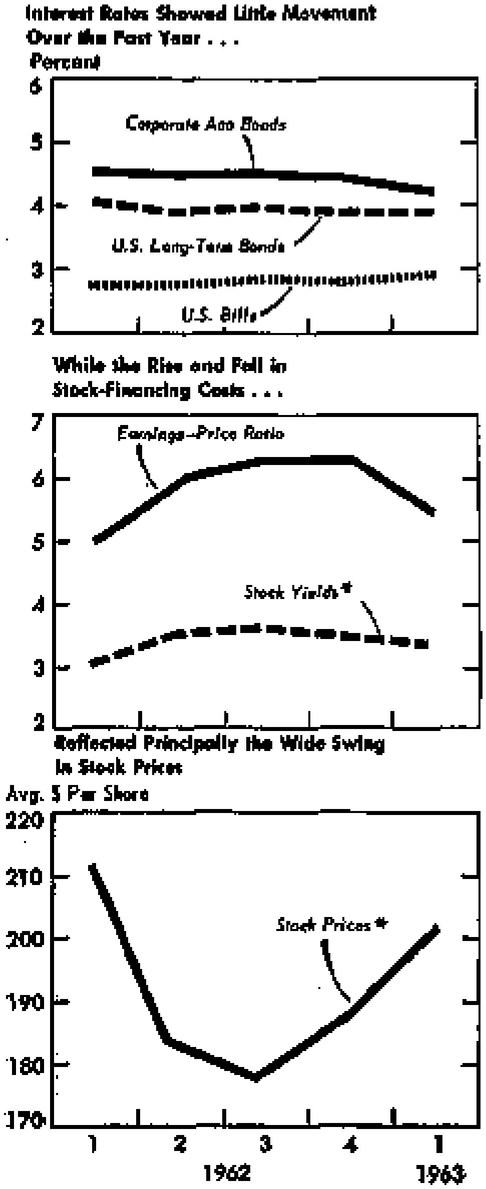
With internal funds more than keeping pace with investment and working capital needs, corporations in the aggregate raised a smaller volume of funds from external financing last year than in 1961. There were offsetting developments among the major industry groups: a rise in mortgage financing associated with the apartment house boom partly offset declines in stock and bond financing by other nonfinancial corporations. These conditions have continued so far into 1963.

Following upon the break in stock prices, the volume of new stock issues by corporations was substantially reduced, as stock issues by new firms declined, and major companies emphasized bond issues due to changing price relationships. The switch to bonds was particularly marked in the communications industry—which in 1961 had accounted for about half of total stock issues, excluding those of investment companies. Investment company issues were also off markedly: at $1.7 billion, they were $400 million less than in 1961.

The volume of new bond issues was unchanged from 1961, as the switch from stock to bond financing noted above maintained volume despite the decline in corporate need for external funds. There was little change in the portion of bond issues publicly offered versus that placed privately: both accounted for about half of gross new issues both in 1961 and in 1962.

However, corporate bonds were placed at progressively lower interest costs throughout the year. The yield on new issues rated Aa by Moody's Investors Service declined from 4.54 percent at the beginning of the year to 4.27 percent at yearend.

FINANCING COSTS STABLE



*Moody's average of industrials (125 stocks)

Data: FRB, Moody's Standard & Poor's, & OBE

U.S. Department of Commerce, Office of Business Economics 63-5-7

Liquid assets rise

Corporations added $1 billion to their liquid assets—deposits and U.S. Government securities—last year, but there were marked changes in the composition of such assets. Time deposits rose by $2¼ billion, and U.S. Government securities rose about $300 million, while demand deposits declined $1¼ billion.

The rise in time deposits was sparked by the higher rates of interest for such deposits, and by the availability of marketable time certificates of deposit. These latter have expanded markedly since early 1961, to a total of over $6 billion. With corporate operations and payables expanding last year, the standard liquidity ratios showed some further declines. However, this should be viewed in the light of the fact that corporations did not act as if they were overly concerned with their liquidity position. The companies switched from demand deposits to less liquid time deposits, while at the same time increasing their short-term bank debt by $3 billion.

Consumer Borrowing Strong

Household transactions have been among the prime factors stimulating the economic advance of the past 12 months. During this period, consumer outlays on autos and other durable goods rose $4 billion and are currently running at an alltime record pace of $50 billion. New home construction has moved up modestly while transactions in existing homes rose sharply. Reflecting these and other needs, personal borrowing totaled $93 billion—$12 billion more than in 1961.

Table 5.—Persons' Financial Asset Accumulation and Debt Operation, 1950–62 [1]

[Billions of dollars]

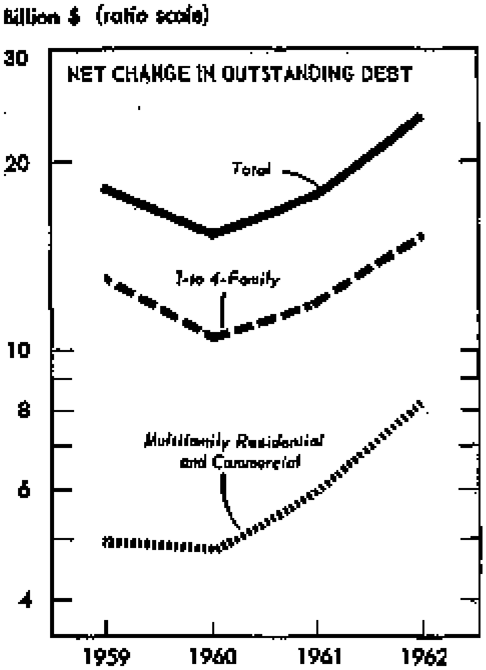
	1955	1959	1960	1961	1962
Financial Asset Accumulation	26.3	34.9	31.4	30.1	39.3
Life insurance and pension reserves	8.4	8.9	9.2	9.9	10.5
Insurance reserves	3.9	3.5	4.2	4.5	4.8
Pension reserves	4.5	5.4	5.0	5.4	5.7
Other financial assets	17.4	21.6	12.1	20.2	28.8
Fixed-value claims	10.1	9.8	11.9	19.9	28.5
Currency and demand deposits	2.5	.3	−1.2	.0	3.1
Time and savings deposits at banks	7.7	4.1	5.0	8.8	15.1
Saving and loan and credit union shares	0.3	7.2	8.3	9.2	10.0
U.S. savings bonds, series A thru K	−.5	−1.8	−.3	.8	.4
Marketable securities	1.8	11.8	.2	.4	.2
U.S. Government	−1.0	9.1	−2.1	−1.4	1.0
State and local government	.6	1.6	1.9	.2	−1.2
Corporate and other securities	2.6	.9	1.1	1.6	.4
Retirement of amortized debt	48.4	51.3	65.2	57.8	61.8
Nonfarm residential mortgages	8.2	8.7	9.2	10.1	11.1
Consumer instalment credit	40.2	42.6	40.0	47.7	50.7
New borrowing [2]	65.9	79.1	78.7	81.6	93.5
Residential and business (table 3)	25.0	30.3	28.3	31.0	36.6
Consumer and security credit	40.9	48.8	50.4	50.0	56.9
Net increase in debt	17.6	27.6	24.6	23.7	31.7
Residential and business	20.9	21.0	19.1	21.0	25.5
Consumer and security credit	.7	6.2	4.4	2.3	6.2
Financial asset accumulation less increase in debt	8.7	3.4	−2.3	6.4	7.6

1. Estimates for the 1940–57 period may be found on p. 17 of the April 1961 Survey.
2. Gross of retirements.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

MORTGAGE BORROWING MOVES UP TO NEW PEAK

Mortgages on Multifamily Residential and Commercial Property Especially Strong



Data: FHLBB & OBE

U.S. Department of Commerce, Office of Business Economics 63-5-8

The personal sector also increased its financial savings last year—repayment of amortized debts rose $4 billion to a total of $62 billion while the acquisition of financial claims was $9 billion higher than the year before.

The aggregate statistics for the personal sector combined two groups of persons with opposite relations to the markets for loan funds: the one group was willing to purchase houses, autos, and other durable goods even at the cost of going deeper into debt; while the other group was acquiring near-liquid claims against financial institutions. The first group sparked economic activity by borrowing, while the second group dampened the course of economic activity.

The spurt in automobile buying has been the major factor underlying the decline of the personal saving ratio from the 7 percent level characteristic of recent years to 6 percent in the first quarter of 1963, a period when a record volume is being added to liquid asset holdings. During the postwar era, periods of very high automobile sales have generally recorded the lowest saving ratios. In such periods, car buyers reduce their liquid assets or incur debts on a greater scale than noncar buyers increase their liquid assets or pay off debts.

Auto buying sparks credit rise

The past 12 months have been the best auto-buying period since 1955. Auto sales began to move up shortly after the introduction of the 1962 models. With the introduction of the 1963 models in the fall of last year, auto production moved into a much faster pace: by April 1963, the production rate had risen to levels exceeded only in the boom year of 1955.

The rise in sales was accompanied by a spurt in borrowing. Auto credit extended aggregated $19½ billion—$3½ billion above 1961. Net auto credit extended during the first quarter of this year at $200 million was up 57 percent as compared with the same period a year earlier.

In addition to autos, consumers stepped up their purchases of other durables by 3 percent and of clothing by 5 percent, while increasing their borrowing to carry such goods by 10 percent. Additional needs for consumer credit were met by personal loans—many for higher education—and by repair and modernization loans.

Both commercial banks and sales finance companies stepped up their acquisition of consumer paper: in addition to a $2-billion increase in direct lending by the former, finance companies added $1 billion to their bank loans. Thus the banks financed directly or indirectly about three-fifths of last year's expansion in net consumer credit.

Mortgage borrowing up strongly

Individuals added $14½ billion to their obligations on 1- to 4-family residential mortgages last year. This was $3 billion more than in 1961, and $2 billion more than in the previous peak year of 1959. This acceleration in the tempo of home mortgage borrowing came despite little change in the volume of construction activity on single-family properties: in 1962, 965,000 such units were started as compared with 946,000 units in the previous year.

An important factor in the increase in debt relative to construction has been a continual uptrend in the volume of sales of old houses. In the past 3 years, there has been in particular a marked increase in the remodeling of old houses in neglected neighborhoods, as interest in urban renewal and in town living has risen. Also, the relatively easy position of most financial institutions has induced them to increase the availability of credit for such houses.

The expanded flow of deposits into institutions traditionally dealing with mortgages has been reflected in some easing of terms: the average mortgage is for a somewhat longer period than several years ago, and interest costs have declined.

The bulk of last year's increase in home financing—$12½ billion out of the $15 billion total—took the form of conventional loans. VA-guaranteed loans showed little change, the total

Table 6.—Personal Saving and Investment and Related Financial Flows, 1958–62

[Billions of dollars]

	1958	1959	1960	1961	1962
Investment in housing and noncorporate business	31.2	26.9	30.8	35.4	38.5
Less: Associated borrowing	26.2	30.7	28.3	31.0	34.6
Capital consumption allowances	15.2	15.9	16.5	17.0	17.6
Plus: Financial assets and debt retirement	74.7	81.8	78.5	87.0	101.1
Less: Consumption borrowing	46.8	48.6	50.4	56.0	64.0
Statistical discrepancy	.0	−.1	−2.8	−.8	2.4
Equals: Personal saving	24.7	22.6	20.9	25.0	26.2
Total sources of funds / Total uses of funds less discrepancy	105.8	118.6	110.1	124.1	137.2

1. Estimates for the 1946–57 period may be found on p. 20 of the April 1961 Survey.

Sources: Board of Governors of the Federal Reserve System, Securities and Exchange Commission and U.S. Department of Commerce, Office of Business Economics.

extended just about equaled the volume repaid. The FHA program accounted for the balance. Among the factors leading to the increase in conventional lending in the past few years has been the fact that savings and loan associations have taken over the bulk of home mortgage financing.

The burden of debt on consumers

It is of some interest to note the burden of these debts upon consumers. In the chart on page 17, the total of interest and debt amortization payments on consumer credit and on 1-to-4-family mortgages has been taken as a percent of aggregate disposable personal income. This chart indicates that, after a sharp upward trend in the immediate postwar years, there has recently been a marked slowing in the rate at which the debt burden is growing relative to disposable income. The heavy borrowing transactions engaged in last year had relatively little effect on these payments: the ratio rose only 0.3 of a percentage point to a total of 19½ percent. Interest accounted for 4½ percent, while debt amortization took 15 percent of disposable personal income.

Persons' deposits rise

Last year, individuals acquired $28 billion of liquid claims on financial institutions. In so doing, they added $2 billion to their holdings of demand deposits, while increasing their holdings of savings and time deposits by well over $15 billion. Investment in shares of savings and loan associations and credit unions totaled $10 billion.

To some extent, the record addition to time and savings deposits and shares thus represented a withdrawal from marketable securities in last year's investment climate. Purchases of securities—stocks in particular—were reduced, and net purchases of investment company shares totaled only $1.8 billion last year as compared with $2.7 billion the year before. At the same time, net sales of "other preferred and common stock" totaled $3 billion as compared with $2 billion in 1961. For the first time since 1946, individuals on net balance sold more tax-exempt securities than they bought: the vigorous bidding on such issues by the commercial banks pushed up prices to such a point as to make it possible to realize an attractive capital gain on the sale of the securities.

Table 7.—Public and Private Debt, End of Calendar Year, 1958–62[1,2]

[Billions of dollars]

	Net debt					Gross debt				
	1958	1959	1960	1961	1962	1958	1959	1960	1961	1962
Total public and private debt	782.6	840.2	889.4	944.1	1,017.3	915.8	988.1	1,036.1	1,096.3	1,176.4
Total public debt	283.6	298.6	301.0	313.1	329.7	347.8	384.3	389.2	402.7	421.3
Federal Government and agency[3,4,5]	232.7	243.2	241.0	248.1	255.0	310.0	321.9	322.1	330.2	340.3
Federal Government	228.6	237.2	235.3	241.8	248.1	282.9	290.8	290.2	296.2	303.5
Federal agency	4.1	6.0	5.8	6.4	7.9	27.7	31.1	31.8	34.0	36.8
State and local governments[6]	50.9	55.6	60.0	65.0	73.7	57.2	62.4	67.1	72.6	80.0
State governments	12.0	13.7	14.5	16.2	18.2	15.7	17.2	18.1	20.0	21.0
Local governments	38.3	41.9	45.0	48.8	55.5	41.6	45.2	49.0	52.6	59.0
Total private debt	499.1	547.4	588.4	631.0	687.6	568.0	601.8	646.9	693.6	755.2
Total, all corporations	259.6	283.3	301.7	321.5	346.0	309.6	337.7	360.3	384.1	413.6
Long-term[7]	121.2	129.3	139.1	149.1	161.2	146.0	156.0	167.0	180.1	194.0
Short-term[7]	138.4	154.0	162.7	172.4	184.8	162.6	181.7	192.4	203.9	219.6
Notes and accounts payable	76.8	83.7	90.6	95.4	101.8	90.6	100.4	108.0	114.5	123.4
Other	62.0	70.3	72.0	77.0	83.0	72.0	81.3	84.4	89.4	96.3
Railway corporations	12.2	12.1	11.8	11.3	11.7	13.0	13.5	13.3	13.3	13.2
Long-term[7]	10.3	10.1	9.8	9.0	9.5	11.4	11.3	11.1	10.9	10.7
Short-term[7]	1.9	2.0	2.0	2.1	2.2	2.2	2.2	2.2	2.4	2.6
Notes and accounts payable	.5	.5	.6	.5	.5	.6	.6	.6	.6	.6
Other	1.4	1.5	1.4	1.6	1.7	1.6	1.6	1.6	1.8	1.9
Nonrailway corporations	247.3	271.2	289.9	309.7	334.3	296.6	324.2	347.0	370.8	400.3
Long-term[7]	110.9	119.2	129.2	139.4	151.6	134.6	144.7	156.0	169.3	184.1
Short-term[7]	136.4	152.0	160.7	170.2	182.6	161.3	179.5	190.1	201.5	216.2
Notes and accounts payable	75.2	83.2	89.6	94.9	102.3	90.3	99.8	107.4	112.9	122.8
Other	61.2	68.8	71.2	75.3	80.3	71.0	79.9	82.8	87.9	93.4
Total individual and noncorporate debt	239.5	264.1	286.6	309.5	341.7	239.5	264.1	286.6	309.5	341.7
Farm, total[8]	23.3	23.0	25.5	27.8	30.5	23.3	23.0	25.4	27.8	30.5
Farm mortgage	11.3	11.3	13.1	14.2	15.5	11.3	11.3	13.1	14.2	15.5
Farm production	12.1	11.7	12.3	13.6	15.0	12.1	11.7	12.3	13.6	15.0
Nonfarm, total	216.2	241.1	261.3	281.7	311.2	216.2	241.1	261.3	281.7	311.2
Mortgage	144.6	160.8	174.5	190.1	210.9	144.6	160.8	174.6	190.1	210.9
1–4 family residential	111.8	124.3	134.2	145.4	159.9	111.8	124.3	134.2	145.4	159.9
Multifamily residential and commercial	32.8	36.5	40.2	44.7	51.0	32.8	36.4	40.3	44.7	51.0
Other nonfarm[9]	71.6	80.3	86.8	91.6	100.3	71.6	80.3	86.8	91.6	100.3
Commercial	13.7	15.3	16.6	17.0	18.5	13.7	15.3	16.6	17.0	18.5
Financial[10]	12.8	13.4	14.2	16.9	18.3	12.8	13.4	14.2	16.9	18.3
Consumer	45.1	51.5	56.0	57.7	63.5	45.1	51.5	56.0	57.7	63.5

1. Data for State and local governments are for June 30 of each year.
2. Estimates for the period 1916 through 1957 appear in the July 1960 Survey.
3. Includes categories of debt not subject to the statutory debt limit.
4. Net Federal Government debt is defined as the gross debt outstanding less Federal Government securities held by Federal agencies and trust funds, and Federal agency securities held by the U.S. Treasury and other Federal agencies. It thus equals Federal Government and agency debt held by the public.
5. Details of Federal obligations may be found in the *Treasury Bulletin*.
6. Includes State loans to local units.
7. Long-term debt is defined as having an original maturity of 1 year or more from date of issue; short-term debt as having an original maturity of less than 1 year.
8. Comprises debt of farmers and farm cooperatives to institutional lenders and Federal Government lending agencies, and farm mortgage debt owed to individuals and others; farmers' financial and consumer debt is included under the "nonfarm" category.
9. Comprises debt incurred for commercial (nonfarm), financial, and consumer purposes, including debt owed by farmers for financial and consumer purposes.
10. Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics.

Government Borrowing Up

The Federal Government's net financial position was little changed over the past year despite substantial changes in the components of receipts and expenditures. Both receipts and expenditures increased $7½ billion on a national-income-accounts basis, and the deficit stood at $3.4 billion last year, as compared with $3.8 billion in 1961.

This failure of receipts to expand faster during a period of increasing business activity reflects the slow rise in corporate profits—a major element in the normal cyclical sensitivity of receipts—after the first quarter; and changes in the rules for computing depreciation charges and the new investment credit. These latter innovations reduced taxes by perhaps $2½ billion. It should be noted that the figures used here to estimate the impact of these tax changes are highly tentative. During the first quarter of the present year, both receipts and expenditures have continued to grow at about the same pace.

Federal borrowing moves up

Net Federal Government and agency borrowing totaled $7.8 billion last year, as compared with $7.1 billion the year before. In addition to financing the current account deficit, Federal Government borrowing reflects any excess of tax accruals over collections as well as the extension of loans by Government agencies. The former contributed about $1 billion to Federal financing need last year. Federal Government lending operations—at $3 billion—were off moderately from the

Table 8.—Total Nonfarm Mortgage Debt by Borrowing and Lending Groups, by Type of Property [1]

[Billions of dollars]

	1958	1959	1960	1961	1962
Total nonfarm residential and commercial mortgages	160.7	176.7	194.0	211.7	235.1
Corporate borrowers [2]	16.1	17.9	19.5	21.6	24.2
Noncorporate borrowers	144.6	158.8	174.5	190.1	210.9
1–4 Family residential mortgage debt	117.7	130.9	141.3	154.1	169.3
Savings and loan associations	42.0	49.5	55.4	63.9	71.0
Life insurance carriers	22.4	23.0	24.9	25.9	27.0
Mutual savings banks	15.0	16.9	18.4	20.0	23.2
Commercial banks	17.0	19.2	19.2	20.0	23.1
Federal National Mortgage Association	3.0	5.0	5.9	5.4	5.2
Individuals and others [3]	18.0	18.7	17.9	18.0	20.3
Multifamily residential and commercial [4]	43.0	47.9	52.7	58.6	66.8
Savings and loan associations	2.7	3.6	4.7	5.9	7.4
Life insurance carriers	12.0	13.9	13.0	16.3	16.6
Mutual savings banks	7.6	8.0	8.6	9.1	10.1
Commercial banks	6.4	7.4	7.0	8.7	10.4
Federal National Mortgage Association	.3	.6	.6	.7	.7
Individuals and others	12.6	15.6	17.1	19.0	21.6

1. Estimates for 1957 may be found on p. 23 of the May 1962 Survey; estimates for the 1945–56 period may be found on p. 23 of the May 1957 Survey; figures for 1939–44 may be found on p. 18 of the September 1953 Survey.
2. The corporate mortgage debt total is included in the total corporate long-term debt outstanding table 3.
3. Includes portfolio loans of the Veterans' Administration.
4. The data represent mortgage loans on commercial and residential property excluding multifamily residential and commercial property mortgage debt owed by corporations to other nonfinancial corporations.

Sources: U.S. Department of Agriculture, Agricultural Research Service; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; and U.S. Department of Commerce, Office of Business Economics.

previous year; but continued large sums were advanced to savings and loan associations, to foreign governments, to colleges, and to rural electrification projects.

With relative stability in the Federal deficit and in Federal lending, the increase in the pace of Federal borrowing was reflected principally in an increase in similar amount in the Federal cash balance. This, in turn, reflected actions taken in furtherance of the Government's policy to exert upward pressure on short-term interest rates last year. During early 1962, the Treasury borrowed a greater amount than it needed to cover current operations, and Federal cash holdings rose $4 billion to midyear. This procedure had the effect of adding to the market supply of Treasury bills, during a period of the year when short-term credit demands are seasonally low. With the seasonal increase in the demand for funds in last half of the year, the Treasury permitted its cash balance to fall $3 billion. For the year as a whole, however, about $1 billion more was added to Treasury debt than was necessary to meet the current-account deficit, bridge the gap between accruals and receipts, and finance the Federal lending program.

Debt operations feature short- and long-term maturities

In addition to financing government operations and increasing the Treasury cash balance, the Government had to refinance about $86 billion of debt maturing within the year, and in addition moved a substantial volume of medium-term debt into longer maturities.

Between March of 1962 and March of this year, Treasury has increased the outstanding volume of Treasury bills—securities with initial maturities of under 1 year—by about $5½ billion. At the same time, it moved $9½ billion from the under-one-year category to maturities greater than 5 years. These operations were undertaken to further the objectives of keeping pressure on short-term rates higher relative to long-term rates through cash borrowing, and reducing the volume of securities coming due in the near future. Refinancing of short-term issues into long-term was accomplished by the advance refunding technique in which holders of short-term securities were offered medium- and long-term issues at more favorable rates of interest, thus stretching maturities without entering the new issue market.

The commercial banking system did not increase its holdings of public debt securities last year, and nonbank financial institutions likewise did not increase the total of such paper in their portfolios. The principal markets for Treasury securities were the Federal Reserve System, which added $2 billion to its holdings; foreigners also purchased $2 billion; business corporations and State and local governments each increased their holdings by $¾ billion; while the heterogenous group of "miscellaneous investors" added a total of over $1 billion to their portfolios. These investor groups have continued to increase their holdings in the first quarter of this year.

In addition to the increase in public debt securities, there was a sharp rise in the pace at which nonguaranteed obligations of Federal agencies were offered to the public. In connection with increased lending to savings and loan associations and decreases in institution investments in the agency' the Federal Home Loan Bank Board stepped up its net issue of bonds and notes from $305 million to $1,136 million. The nonguaranteed liabilities to the public of other Federal agencies rose at about the same pace as in 1961.

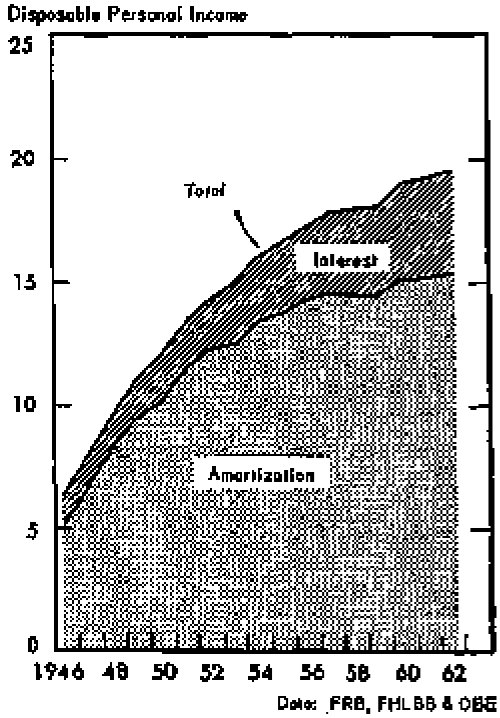
State and local governments step up their borrowing

The gross issue of new securities by State and local governments totaled $8¾ billion last year, up moderately from 1961, and substantially above any previous year. In part this increase reflected some step-up in the programed rate of State and local construction, and in part the arranging of long-term financing during a period of relatively low interest costs.

With construction activity not yet fully reflecting the high level of borrowing, the State and local governments continued to add to their liquid asset holdings at about the pace registered

DEBT SERVICE IN RELATION TO INCOME CONTINUED TO RISE LAST YEAR

Interest and Amortization Payments on Consumer and Home Mortgage Debt



U.S. Department of Commerce, Office of Business Economics 63-5-9 in 1961: they added $1 billion to time deposit balances, while holdings of U.S. Government securities were up $1½ billion.

State and local pension and other funds have continued their recent role as major suppliers of loan funds to the market. Pension funds rose $2½ billion last year, and the bulk of this total was invested in corporate bonds. There was little change in fund holdings of State and local securities, which being tax-exempt, offer markedly lower yields than comparable corporate issues.

As noted earlier, the commercial banks provided the major market for State and local securities; last year these institutions added about $5 billion to their portfolios. Insurance companies continued to add to their holdings at the recent-year pace of about $1 billion. Individuals and others—normally a major market for tax-exempt securities—reduced their aggregate holdings.

By June 30, 1962, the net volume of State and local indebtedness had attained a total of $74 billion—five times greater than at the end of the second world war. The relative increase in such obligations has been greater than that in any other major form of debt—Federal, corporate, or individual. This fourfold rise has reflected expanded needs for capital in the functions traditionally undertaken by local governments as well as some improvement in public facilities. During the early part of the postwar period, substantial borrowing was undertaken for the provision of roads and bridges. After the Federal Government shouldered the major responsibility of building up a modern highway system in 1954, the volume of such borrowing declined.

In recent years, education has been the major single use of borrowed funds, accounting for over one-third of total new issues in each of the past six years. The extension of sewers, water lines, and other utilities has also been a major claimant of borrowed funds and last year accounted for almost one-fifth of new issues.

A technical note describing the statistics contained in this report is available upon request to the Office of Business Economics.

Tax Base—

(Continued from p. 8)

There are also shown in table I, line 3, on the other hand, some types of income which, although included in the definition of adjusted gross income, are not in the personal income total. Of major importance here are capital gains and employee and self-employed persons' contributions for social insurance programs. The latter are netted out in the computation of the Department's estimates of personal income since they are withheld from employees earnings. Capital gains or losses are not included in personal income because they do not arise from production, but rather reflect price phenomena.

Exemptions and deductions large

Slightly over half of the difference between personal income and income taxed represents the amounts for statutory personal exemptions and deductions which are shown in table II. Together these amounted in 1960 to $125 billion. Personal exemptions of taxable individuals accounted for $81 billion and their deductions to $44½ billion. Persons with about three-fifths of taxable adjusted gross income itemized deductions, and accounted for three-fourths of the $44½ billion total of deductions.

The remaining income not subject to tax—$52 billion, about one-fourth of the total—represents incomes too small to be taxed after exemptions and deductions are taken into account, and income which is not reported on income tax returns. Some part of the unreported income reflects earnings too small to be reported (less than $600), or income which would not be subject to tax after exemptions and deductions. Another part undoubtedly stems from taxpayer errors and omissions of income sources, and nonfiling of income tax returns. Some portion of these errors and omissions will be subject to tax after examination and audit by the Internal Revenue Service. It must be cautioned, however, that some part of the total of non-reported income as shown in table II may be spurious, since the estimate of non-reported income as a whole is obtained as a residual and may reflect nothing more than errors in some of the entries shown in table I.

Revised Statistical Series

Construction Cost Index, 1950–62: Revised Data for Page S-10[1]

[1957-59=100]

Month	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
January	63.8	70.1	72.3	77.4	80.5	84.7	89.0	93.1	97.8	102.4	106.8	109.8	112.0
February	63.8	70.9	72.4	77.3	80.9	84.9	89.5	93.4	97.9	103.5	106.9	109.8	113.0
March	64.3	71.0	72.6	77.4	80.6	85.0	89.6	93.2	98.0	102.3	107.0	109.8	113.4
April	64.7	71.1	73.0	77.6	81.0	85.2	89.9	93.5	98.1	103.2	107.2	110.3	113.6
May	65.2	71.5	73.4	77.0	81.4	85.0	90.5	94.2	98.0	104.0	108.2	111.5	114.7
June	66.7	71.5	74.0	79.1	81.8	85.3	91.1	94.9	98.9	104.5	108.8	111.9	114.9
July	67.4	71.4	76.2	79.6	82.7	86.9	91.4	95.3	100.3	105.0	109.1	112.3	116.4
August	68.5	71.6	76.9	80.5	84.4	88.5	91.5	97.2	100.4	105.6	109.2	112.4	116.0
September	69.9	71.5	77.2	80.4	84.2	88.5	92.5	97.1	101.5	105.9	109.2	112.4	115.9
October	70.4	72.0	77.5	80.5	84.4	88.7	92.6	97.0	102.0	105.7	109.2	112.4	115.9
November	69.7	72.1	77.5	80.5	84.5	88.6	92.7	97.0	101.9	105.4	109.2	112.5	115.6
December	69.8	72.1	77.4	80.4	84.0	88.4	92.6	97.1	101.5	105.3	109.3	112.5	115.9
Monthly average	67.1	71.4	74.9	78.0	82.0	86.9	91.1	95.2	99.9	104.9	108.4	111.5	114.7

1. Revised to reflect data as of 1st of indicated month and shift to 1957–59 reference base.
Source: Engineering News-Record.